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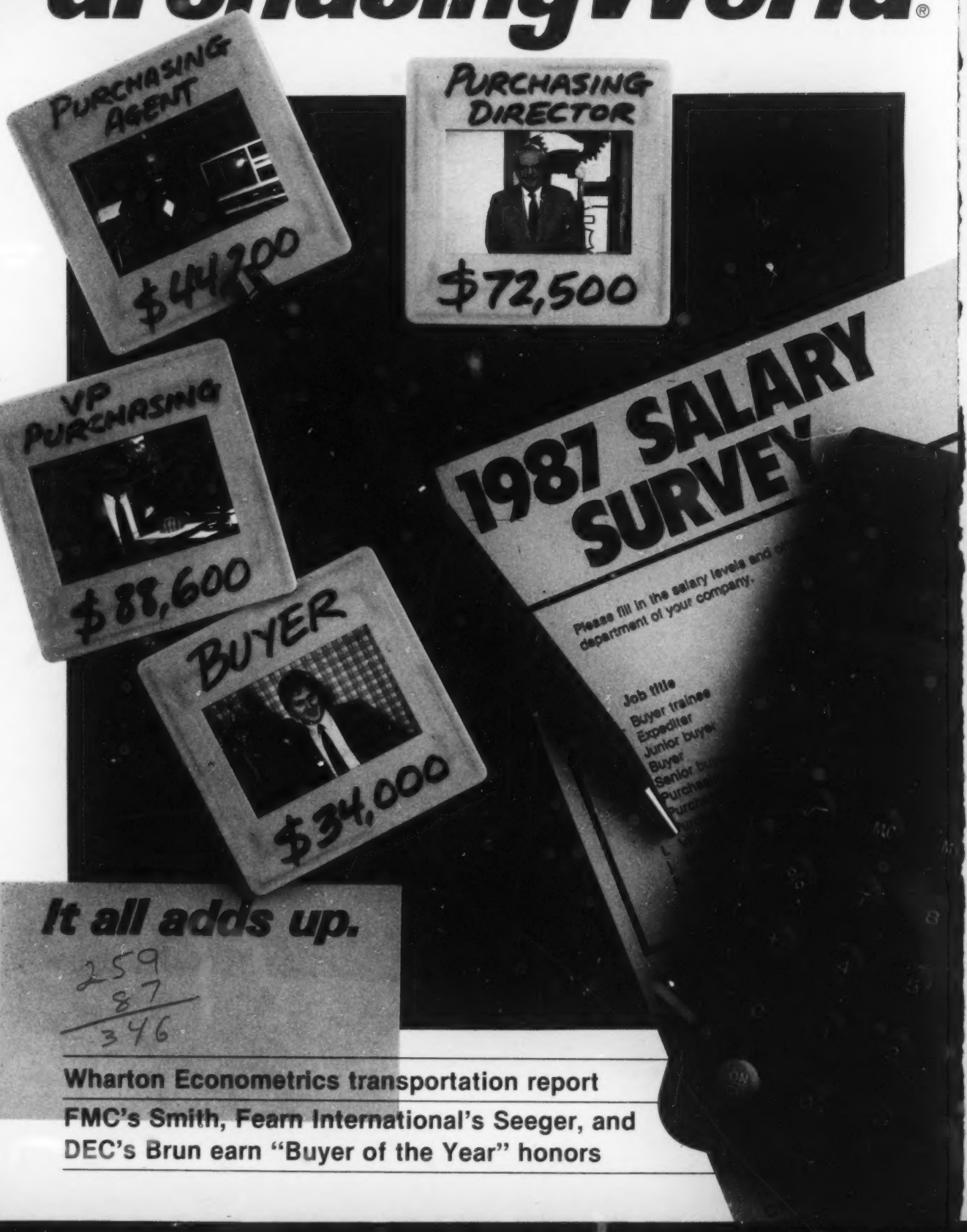

It all adds up.

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Wharton Econometrics transportation report

FMC's Smith, Fearn International's Seeger, and DEC's Brun earn "Buyer of the Year" honors

PurchasingWorld®

Helping you manage the business of buying

December 1987 Vol. 31 No. 12

Special report: 1987 Salary Survey

37 The salary scene: It all adds up

The results of our 1987 survey show purchasing salaries up, along with an increase in the number of women in the profession (now more than 40%). But there are some surprises, too.

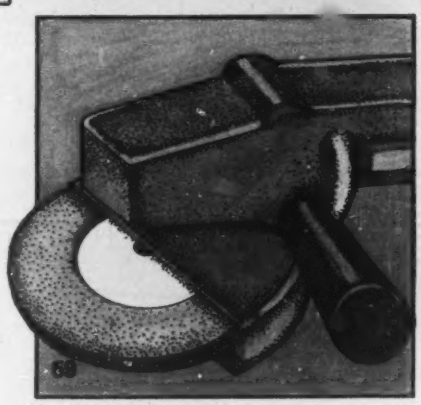
46 Buyer of the Year winners

The winners of our annual buyer of the year competition all point up the value of watching the basics and taking initiative:

In Division I, ***Eileen Smith of FMC Corp.*** exceeded a corporate goal of 5% cost reduction by double in one case, dropping unnecessary bolt specifications for major savings. Smith also found that company growth gave greater leverage in gas buying, cutting costs by more than half in that area.

In Division II, ***Bill Seeger of Fearn International,*** used his materials handling background to save time and money (and warehousing space) in handling packaging materials, as well as hanging tough in negotiations for cost avoidance.

Peggy Brun of Digital won Division III with her pioneering work in energy saving lighting for the plant as well as saving money in chemicals buying for water treatment—with corporate-wide results.



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Technological improvements have increased product life, thus making buyers and users happier but decreasing the unit sales potential for suppliers.

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PW PREDICTS

Robert S. Reichard, executive editor

Stock market's October tumble helps slow price increases

Figure on smaller price increases in 1988 as the impact of the mid-October stock market tumble reverberates through the economy.

Psychological factors will undoubtedly play a role in this price slowdown. Much of it will be due to a more subdued GNP growth curve than was expected last quarter. One survey of 35 leading economists puts the first half growth rate at only a 1.4% annual rate.

If true, it means billions of dollars less in purchases and substantially reduced demand/pull pressure on prices. How much price inflation? The same people see the consumer price index decelerating by about one percentage point over the next six months—from a 4.8% projected annual rate.

A similar pattern is anticipated in industrial producer prices, a yardstick of more immediate concern to *PW* readers. As recently as early this fall, most econometric models were predicting a 4-5% increase in overall industrial product prices for 1988. Now the consensus is as low as 3-3.5%

There's strong evidence that these lower rates will materialize: Sensitive commodity prices have already begun to top out after almost a year of virtually uninterrupted advances. It makes a lot of sense, as projections for smaller gains impact on steel, nonferrous metals, chemicals, textiles, and oil. ($20/barrel oil quotes have gone down to $18-19/barrel.)

Even before the stock market tumble, fears of a raw material price spiral were overdone. Wharton Econometrics, writing just before the crash, observed, "Commodity price rises are not sustainable given the excess supply in most markets...oil and other raw materials prices are expected to remain more or less flat over the next couple of years."

The anti-inflation evidence on the cost/push front is also encouraging. A recent Bureau of National Affairs survey of 215 firms finds nearly 75% seeking to limit 1988 first year wage increases to 2.4%. Labor Department numbers for the first nine months of 1987 show that the cost of newly-inked pacts during their first 12 month span reflects only a 2.1% increase.

Increases over subsequent years are higher, but it's doubtful overall pay costs will rise more than 4% in 1988. Even this is an exaggeration, especially in manufacturing. Productivity has been rising almost as fast. It suggests little or no near-term increase in unit labor costs for American-produced goods.

The somewhat lower interest rates envisioned after the stock market debacle also have to be considered a positive sign as far as prices are concerned. Even a one percentage point decline in the prime rate could substantially reduce inventory carrying charges and other business costs.

Finally, take a look at gold and platinum. These elements traditionally have been the first to rise when big price advances are feared. Their recent performance has been down—significant evidence that the smart money is still betting on price stability.

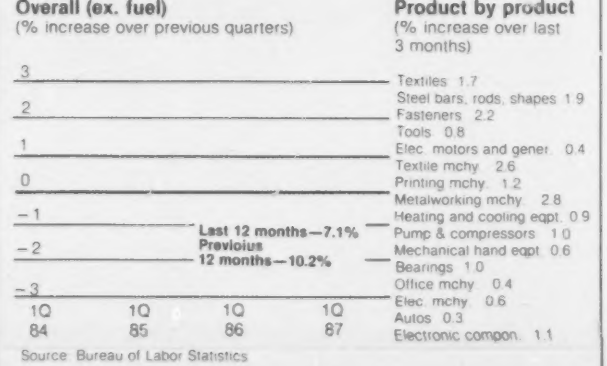
Import prices

Import price increases are slowing down—with Uncle Sam's latest index for all incoming shipment (except fuel) advancing only 1.3% over the latest (third quarter 1987) period. That's only about half the 2.5% average quarterly gains noted during the first six months of the year.

A more detailed rundown of latest quarterly changes follows:

- **Crude materials:** Averages here were up 2.8%—the third straight quarter of significant increase. The biggest jump occurred in wood (up 6.4%), crude rubber was up nearly 6%—with smaller gains registered for pulp and wastepaper (1.0%), and metal ores and scrap (2.9%).
- **Chemicals:** Third quarter prices edged up 0.8% after increasing 6.0% in the previous six months. Much of the current deceleration can be traced to an 8.6% drop in hydrocarbon tags (primarily benzene). In contrast, manufactured fertilizers jumped a resounding 18.2%.
- **Intermediate manufactured products:** Quotes here jumped 3.7%. Pacing the advance were nonferrous metals (up 7.3%), and paper and products (up 6.1%). Other groups which posted large increases for the second consecutive quarter included 1) wood manufacture and 2) iron and steel (both rising 3.9%).
- **Machinery and transport equipment:** Prices rose only 0.2%—the smallest quarterly increase since March 1985. Only one category—metalworking machinery (up 2.8% on the strength of a jump in parts prices)—reported a gain of over 0.4%.

Import prices: the increases slow down



Source: Bureau of Labor Statistics

Electronics industry

Strong 1987 electronics industry demand shows every sign of continuing into next year.

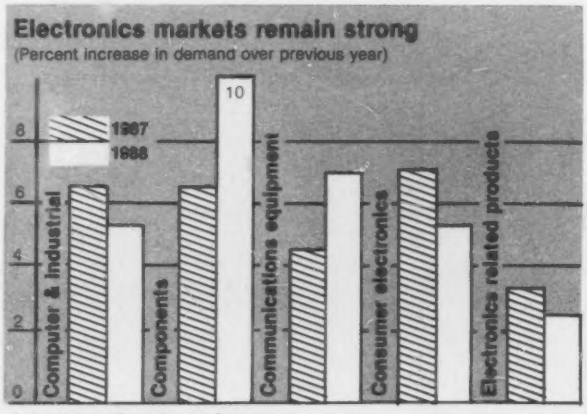
Indeed, if a new Electronics Industries Association projection is correct, 1988 could actually top current performance. The trade group, for example, sees next year's U.S. sales jumping 6.2% (to $238 billion) compared to the 5.3% estimated advance for 1987.

Credit the gain to strong demand in virtually all key sectors. The big "computer and industry" segment (one third of total sales), for example should be up 5.5% over the next 12 months—thanks to increased sales of personal computers and enhancements to small computers. Only machine tools (hard hit by foreign competition) will remain a disappointment in this area.

Meantime, the strong PC market should make for a big 10% double-digit increase in component part sales next year—on top of this year's substantial 6.5% gain. Semiconductors will lead the advance. But demand for passive components will remain rather modest.

The communication electronics market also remains buoyant as a projected 7.0% increase follows this year's estimated 4.5% advance. True, there has been some slowdown in military orders in recent months, but this should be more than offset by growing sales of commercial gear.

Consumer electronics, where a 5.5% gain is expected to follow a 7.1% increase, isn't any laggard either. On the other hand, the catchall "electronics-related products and services" segment (an area including aerospace and auto electronics as well as office machines) will show more subdued increases—about 3.3% this year, with 2.5% gain targeted for 1988.

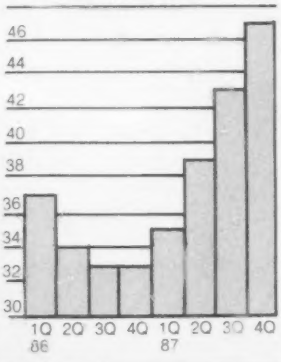


Source: Electronics Industries Assn.

Polypropylene

The popular commodity plastic is riding high. While only 3¢/lb of a recent 5¢/lb boost has held, the resin (homopolymer grade) now commands 46-48¢/lb—a hefty 15¢/lb jump over last December's levels. Behind the increase: Strong exports, rising propylene costs, and snug supply/demand balance. On the last point, shipments have jumped 10% this year (to 6.4 billion lb) pushing the industry operating rates above the 95% level. Nor is the supply situation likely to change in 1988—as another 8-10% demand gain virtually wipes out the positive impact of an 11% boost in capacity. Because of an expected leveling off in feedstock costs, any further boosts are likely to be quite modest.

Polypropylene prices
(Homopolymer grade)
(Transaction price 1¢ lb.)



Zinc

The plating and alloying metal is trying to hold onto its recent price advances. But some erosion can't be ruled out as previously strike-interrupted production comes into the market. Also new production is coming onstream in Brazil and elsewhere. Recent forecasts call for a 2% increase in 1988 consumption. But that may be on the optimistic side as the stock market slide reduces end use demand in the big auto and construction markets. In any event, *PW* equations suggest it may be hard for producers to maintain current price levels—with tags perhaps dropping under the 40¢/lb level by early next year.

Keyboards

Standardization is hitting the big keyboard market, with customized models giving way to less expensive off-the-shelf units. These commodity keyboards can easily reduce costs from $10-20 per unit. Prices continue to come down as high-volume deals move at around 50¢/key; a 101-key model sells for around $50. Another plus for standardization: the desire to have a common design on various pieces of hardware. Also worth noting: Hard contact keyboards (traditionally favored because of their low prices) as well as newer membrane-based capacitance, contact membrane, and rubber keyboards are all now in about the same price range.

Die castings

Two good back-to-back demand years, that's what the American Die Casting Institute (ADCI) is projecting—as this year's 6.0% dollar sales gain is followed in 1988 by an even

bigger 6.4% advance. Equally significant, the trend towards the production of more complicated and multifunctional components is continuing. Another trend worth noting: Strong firms are becoming stronger while the weaker ones merge unless they have a special market niche. ADCI also provides estimates suggesting mixed 1988 real growth. Thus the projected consumption gains: Aluminum—5% increase to 512,000 tons; zinc—a 6% decline to 164,000 tons, and magnesium—5% increase to 11,000 tons.

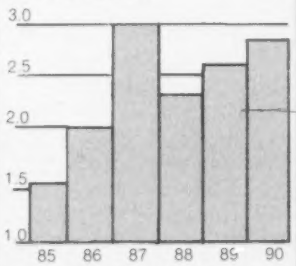
Office and industrial vacancies

There are still some good buys out there—despite some leveling off in vacancy rates. On the office front, for example, the latest 16.2% and 23.0% figures for downtown and suburban locations remain pretty much near recent peaks. In some center cities the figures are a lot higher than the 16.2% average. Examples: Dallas (24.6%); Denver (30.3%); Houston (21.9%); Kansas City (25.4%); and St. Louis (19.0%). Industrial vacancies at 5.8% also remain high—with best bargaining leverage probably centered in these glutted areas: Miami (10.4%); Chicago (7.0%); Dallas (7.0%); Houston (13.7%); North and Central California (8.0%); and, Minneapolis (7.4%).

Paper

Markets continue strong, with 1987 production likely to end up 4% ahead of last year. Prices, meantime, are averaging about 10.5% above those of 12 months ago, with increases recently hitting many coated and uncoated white paper grades, bleached board, linerboard, and corrugated boxes. Blame much of the increase on tightening markets—with industry operating at near 85% of its potential. These rates are likely to stay at this level over the coming year as only about 2.3% is being added to overall industry potential; pretty much in line with anticipated demand gains.

Paper & board capacity
(Percent increase)



Source: American Paper Institute

Copper

Speculative fever is probably behind much of the recent runup which at one point had prices well above $1/lb. It would be unrealistic to expect any decline back to the 70-80¢/lb. range of a few months back for market fundamentals remain quite bullish. Thus while third world production during the first nine months of 1987 was down 1%, consumption was up 7%. One result: Consumer, producer and exchange stocks are at a 13-year low. Best bet: Continuing high prices

Aluminum

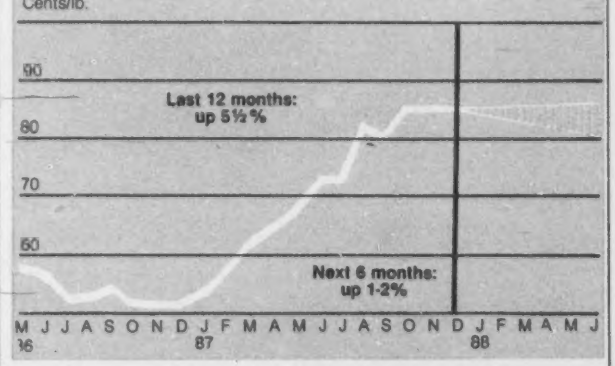
CURRENT SITUATION: Prices remain firm—outpacing earlier projections. Market ingot is now nearly 85¢/lb compared to 53¢/lb one year ago. Fabricated products have also been moving up. Increases have recently been posted on can stock, common alloy sheet, plate, specialty products, building sheet, residential siding, and alloy rod. **Behind the surge: consumer rebuilding of stocks, a producer lag in reactivating closed potlines, and a fall off in global inventories.**

DEMAND: Domestic shipments this year will range between 7.66 and 7.81 million short tons—about 0-2% ahead of last year. Pacing the market are containers and packaging. Some declines are likely in construction and automotive. As for next year, little overall change is seen. **The longer-term outlook, however, is modestly bullish. Average annual gains of 2-3% are seen into the early 1990s.**

SUPPLY: Recent tightness should give way to better balance as new and reactivated capacity, both in North America and overseas, comes on stream. Global output is expected to rise by more than 2.5% next year. Result: producer inventories will begin to increase, with a global gain of over 110,000 metric tons expected for 1988. **The longer-term supply outlook is also beginning to brighten.**

PRICE OUTLOOK: Figure on quotes leveling off or even edging down a bit next year. On the demand side there are increasing indications that customer inventories have been replenished. On the supply front the number of aluminum smelters coming back on line has to have some impact.

Aluminum ingot prices
Cents/lb.



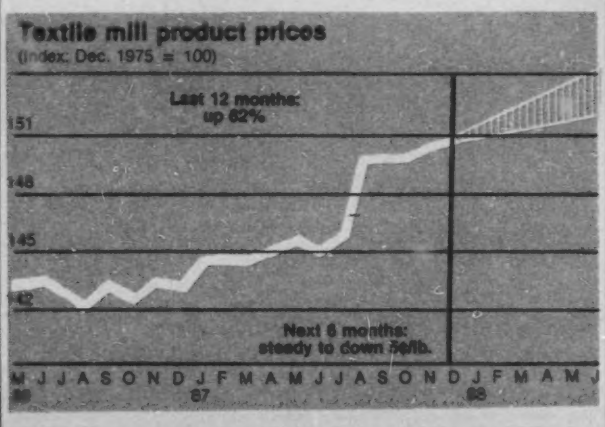
Textile mill products

CURRENT SITUATION: It has been a buoyant year for this depressed industry. Prices have levelled off—but at high levels, with the overall mill product price average running a significant 5.5% above a year ago. One reason for higher tags, aside from brisk demand, has been the softer dollar which has been driving up the price of competing imports. **This year's gain in textile and apparel imports (square yard equivalent basis) is put at only 3.5%.**

DEMAND: Improved activity shows in production figures where this year's mill output is expected to run 8-9% above 1986. And next year shouldn't be all that bad, with producers talking in terms of another 3-5% advance. **And while the weaker dollar is behind much of the optimism, there are other factors at work here, too:** 1) the shaky stock market; 2) stricter enforcement of import quotas and, 3) the success of the "Made in the U.S.A" and "Quick Response" campaigns.

SUPPLY: Gluts are pretty much a thing of the past. This is certainly true where cotton and wool are in snug supply. Fabrics, too, are a bit harder to find because of 1) growing demand; 2) rationalization of capacity; and, 3) the slowing down of imports. The best indicator of a changing market is the rise in the textile mill product operating rate, **currently near 90%, in sharp contrast to the 80% low of early 1985.**

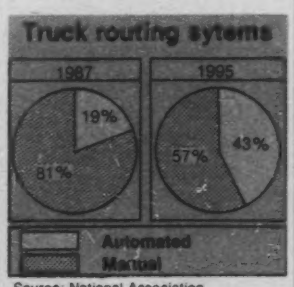
PRICE OUTLOOK: A slow rise is likely. Candidates for near-term advances include polyester staple and a few other manmade fibers, selected gray goods, denims and carpets—with the latter reflecting higher fiber costs. Beyond that, tags should take a breather as demand levels off and new capacity gives buyers more leverage.


Textile mill product prices
(Index: Dec. 1975 = 100)
Last 12 months: up 62%
151
148
145
142
Next 6 months: steady to down 2¢/lb.
M J J A S O N D J F M A M J J A S O N D J F M A M J
86
87
88

through the first half of 1988, with any relief waiting until later in the year or early 1989 when a significant increase in new production is anticipated.

Distribution costs

Don't forget logistics in setting overall cost-cutting goals. A new study by the National Association of Wholesaler-Distributors, for example, suggests that by 1995 member firms will be funneling only 8.5% of their durable sales dollars into the transportation, storage, and handling functions (down from 9.0% currently). Some of the reasons behind this decline: 1) increasing use of centralized full-stocking locations; 2) gradual replacement of in-house private truck fleets by common and contract carriers; and, 3) much more reliance on automated truck routing systems.



Source: National Association of Wholesaler-Distributors

Methanol

Last year's oversupply has quickly disappeared, with the industry operating rate up near 99% (reflecting a 200 million gallon drop in capacity and a 15% increase in production over the past 12 months). As such, most of an earlier 14¢/gallon price decline has been reversed. The latest ¢/gallon increase, for example, brings the going price up to as high as 38¢/gallon. And further upward movement to above 40¢/gallon is expected by year end.

Steel

Prices are still on the rise, with another 5% or so increase in carbon flat rolled products anticipated for January. Stainless tags, too, are slated for another boost. But that should be it for a while. The 1988 fundamentals are not really all that bullish. Domestic consumption, hurt by sluggish auto and construction chewup, will actually fall about two million tons (into the 87-88 million ton range). Nor will the current year's two million-ton-plus inventory buildup be repeated. Indeed, a fractional drop-off in stocks can't be ruled out. Upshot: Domestic shipments will also decline to near 70 million tons—down about 4% from this year's estimated 73 million ton level.

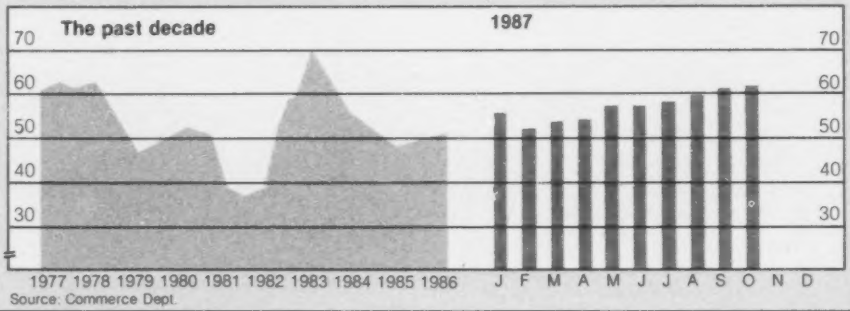
ABS plastic resins

Prices are firming—as lists are boosted and a 2¢/lb temporary voluntary allowance on the key pipe grade is removed. Behind the rise: 1) increasing costs of styrene, acrylonitrile, and butadiene, 2) reduced imports following the imposition of duties on Taiwanese material, and 3) improving demand.

BUSINESS DATATRAK

N.A.P.M. business barometer

Based on five indicators (employment, inventories, new orders, production, vendor performance)



Source: Commerce Dept.

KEY ECONOMIC TRENDS

Surveys show momentum is continuing

Sure, the stock market debacle will slow down economic growth.

But there's too much forward momentum to suggest a downturn. One surefire sign of this: the NAPM Business Barometer (chart above) is running an impressive 12 points above the neutral 50 mark—the highest reading in almost four years.

Robert J. Bretz, NAPM Business Survey Committee Chairman, observes, "Notwithstanding what happened with the stock market, the economy entered the fourth quarter with vigorous growth."

Other reassuring news comes from a Conference Board survey which finds consumer confidence dipping modestly—from 116.9 (1986 = 100) just before the mid-October crash to 110.4 two weeks later.

As the board puts it, "While consumers are a bit more cautious, confidence is continuing at high levels."

Buying intentions, too, remain at quite high levels (top chart, right). The post-crash survey finds 73% of queried households saying that the Wall Street slide will have no effect on their plans to buy autos, appliances, furniture and other major goods.

Equally significant is the new National Association of Manufacturers' survey on business optimism. An informal poll of the group's members finds the majority expecting a slower growth pattern but no recession.

Some negative fallout is likely in housing. Weakness here has been apparent for some time—witness the low level of building permits (a forerunner of actual starts; see chart center right).

The decline in other types of construction is not likely to be precipitous. New McGraw-Hill contract award projections (which include everything except 1- and 2-family homes) suggest only a 3% overall decline for 1988.

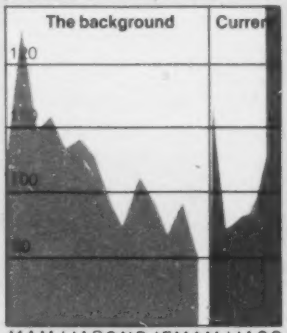
Nor does the above exhaust the cushioning factors that can still be cited. These include: 1) rising exports engendered by the weaker dollar and, 2) high overtime. The average factory worker is putting in an extra 3-1/2 hours a week (see chart), significantly above 1986 and early 1987 levels. This suggests a pickup in new job opportunities and even another fractional decline in the unemployment rate.

Last but not least, there's the continuing low level of inventories being carried by manufacturers and distributors. If nothing else, this guarantees that as new orders are received, they'll be quickly translated into new production.

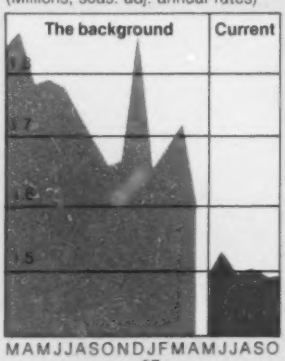
All of the above is why near-term industrial pro-

Leading indicators

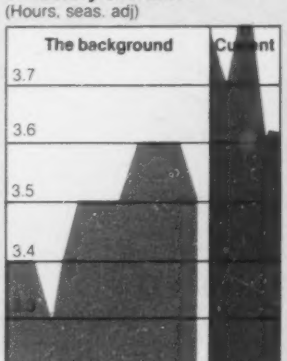
1. Consumer buying intentions
(Index: 1985 = 100)



2. Housing permits
(Millions, seas. adj. annual rates)



3. Factory overtime
(Hours, seas. adj)



duction forecasts remain surprisingly high. Consensus projections, for example, now put the advance for the 6-month period ending next March at 3%—only about one percentage point under the pre-crash estimate.

EDI has tremendous cost-cutting potential

Ignore electronic data interchange (EDI) systems—and you do so at your own risk—as the new space-age approach to buying and selling proves to be an increasingly potent cost cutter.

In any event, more and more firms are jumping on the bandwagon. Witness a recent International Resources Development (IRD) study which puts this year's U.S. sales at near $85 million—double the 1986 pace. And that's only the beginning—with the big Norwalk, CT research firm projecting a domestic market of near $500 million by 1992.

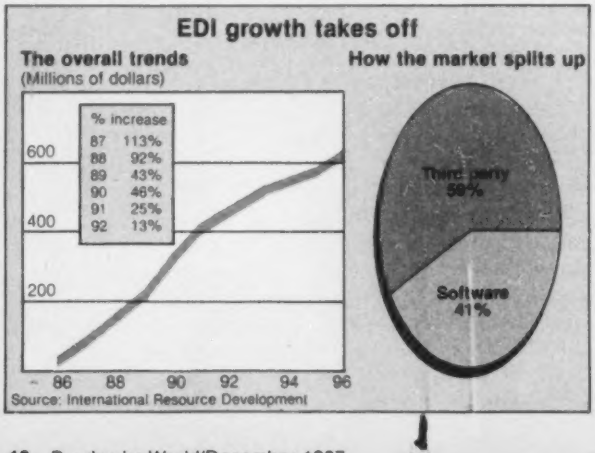
Put another way, this implies average gains of near 45% annually over this five-year period. Third party service suppliers who provide "value-added" networking currently account for about 60% of total EDI billings. They should continue to set the pace—with about the same percentage of overall sales expected for this sector through the early 1990s.

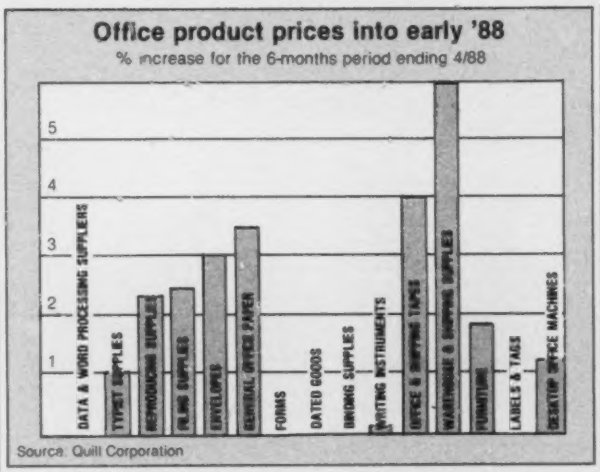
The automotive industry provides perhaps the best illustration of EDI's cost-cutting potential. The IRD study, for example, says electronic systems are expected to save anywhere from $200 to $500 per car—as EDI integrates with JIT (just-in-time) and automated manufacturing systems.

Nor does the above exhaust the potential for savings. New technologies, for example, will eventually include "smart documents"—that is EDI software based on expert systems and artificial intelligence (AI) that will be able to act as automatic document generators, analysts, and evaluators.

But what helps EDI could hurt competing industries. Thus sales of business forms could drop off about 10% over the next few years as some bills of lading, purchase orders, etc. are replaced by EDI.

Overnight couriers could be even harder hit, with the study suggesting that up to 30% of overnight package service traffic could be vulnerable to replacement by EDI. But any really big impact in this latter area is not expected before 1992.





Office products price forecasts

Price pressures should remain quite subdued in the big office product area.

Quill Corporation's latest semi-annual survey, for example, suggests only about a 1.2% increase in overall office product prices for the six-month period ending next April. That's not much more than the 0.9% figure noted six months ago when this leading catalog maker last surveyed its suppliers.

Some of the firm's more specific price projections:

- **Data and wordprocessing supplies:** Figure on a basically flat pattern. Disk prices, which have been declining 10-15%, may be ready to level off. But prices on computer paper and continuous forms will rise about 5%.
- **Typist supplies:** Look for a 1% increase, sparked by increases in correction fluid. But ribbons will hold steady.
- **Reproducing supplies:** Budget for a 2.3% boost—primarily because of continuing hikes in copy paper and toners—with the latter due to a softening of the dollar *vis a vis* the Japanese yen.
- **Filing supplies:** Prices should rise about 2.4%, slightly more than predicted for the last six months. File folder tags could also be up slightly due to higher bristol costs.
- **Envelopes and general office paper:** Prodded by higher paper costs, envelope and stationery prices will be up 3% or more. And papers made from tablet stock (ruled pads, adding machine rolls, etc.) could rise 3-4% by early 1988.
- **Writing instruments:** Only a fractional 0.2% gain is seen as upward pressure from a weak dollar is offset by strong sup-

plier competition.

■ **Tapes and other warehouse/shipping supplies:** Higher polypropylene costs could push tapes up 3-5%. And a more broad-gauged cost advance could make for a 6% increase in such items as shipping bags, steel shelving, postal scales, and trash can liners.

■ **Furniture:** Expect a 1.8% rise as steel, corrugated and plastic resin costs all rise.

■ **Desktop office machines:** Figure on only about a 1.2% advance—down from the 2.5% boost forecast six months earlier. Hikes in Japanese-made products (primarily calculators and dictation equipment) are sparking the gain.

Other areas where little or no price change is expected: Forms, binding supplies, labels, and tags.

This month's breakdown

	Latest level (October)	% change from: Month ago	Year ago
Bearings	358.5	0.1	0.5
Bolts, nuts, etc.	279.2	0.2	0.8
Chemicals, inorganic	295.3	0.9	−0.1
Chemicals, organic	359.3	1.8	10.5
Concrete products	326.1	0.1	0.5
Corrugated cartons	NA	NA	NA
Cutting tools, small	293.2	0.0	0.4
Electric lamps (bulbs)	351.7	−0.3	1.2
Electronic components	202.9	0.4	0.0
Fans and blowers	368.3	−0.8	−0.1
Foundry and forge products	366.8	0.2	1.4
Fuel oil (residual)	612.7	−5.2	35.1
Furniture, commercial	329.3	0.4	2.9
Gasoline	402.3	−1.6	29.4
Glass, flat	241.0	1.1	3.7
Glass containers	401.3	0.0	0.2
Gypsum products	306.0	0.8	−10.8
Hand tools	398.2	0.3	3.3
Hand tools, power driven	242.1	0.0	0.8
Industrial furnaces	403.9	0.4	2.0
Integrating and measuring instruments	241.0	0.2	1.6
Internal combustion engines	359.4	0.3	1.6
Lubricating oil	349.2	1.6	−2.0
Lumber millwork	334.2	0.4	4.4
Material handling equipment	300.3	0.1	1.1
Metal containers	359.9	−0.2	−0.7
Metal mill shapes (nonferrous)	335.1	1.8	12.0
Metal tanks	306.7	0.6	2.9
Motors and generators	361.8	0.6	2.6
Motor trucks	332.6	8.0	0.8
Office and store equipment	159.9	0.1	3.2
Paperboard	310.8	0.7	12.5
Paper boxes and shipping containers	294.4	0.9	7.8
Paper office supplies	244.8	0.9	2.1
Paint	285.1	0.1	0.9
Plastic resins	338.0	4.2	15.4
Precision measuring tools	277.7	−0.3	3.2
Pumps and compressors	365.9	0.2	0.7
Refractories	374.0	−0.3	0.9
Rubber belts and belting	328.9	0.2	−2.4
Scales and balances	235.1	−0.1	1.0
Steel products	365.3	2.7	4.5
Switchgear	291.3	−0.3	1.8
Textiles, synthetic fibers	150.4	0.8	1.1
Textiles, gray fabrics	160.1	0.3	6.7
Tires and tubes	232.8	0.3	−0.3
Transformers and power regulators	240.3	−0.1	2.8
Welding equipment	306.4	0.4	1.5
Wire and cable	223.0	0.7	8.4

CURRENT PRICES

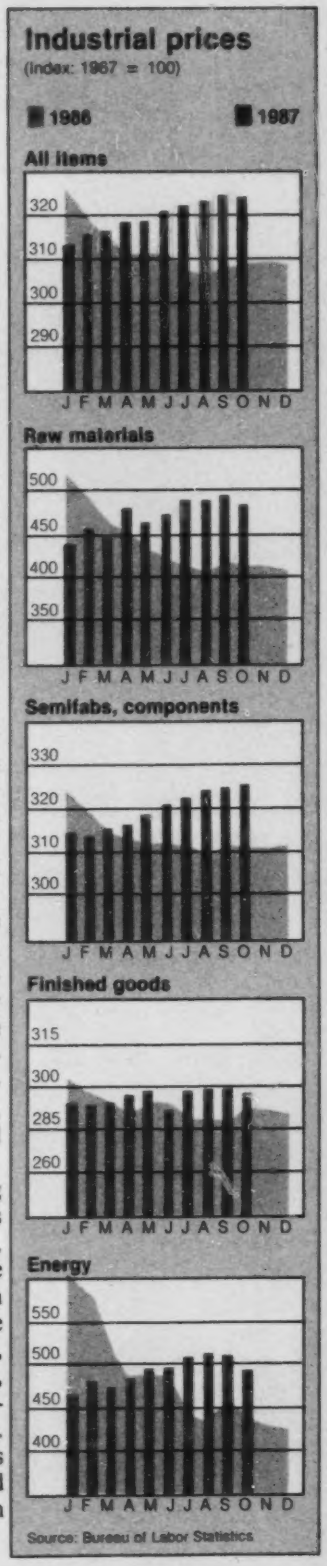
Chemicals, plastics, metals lead increases

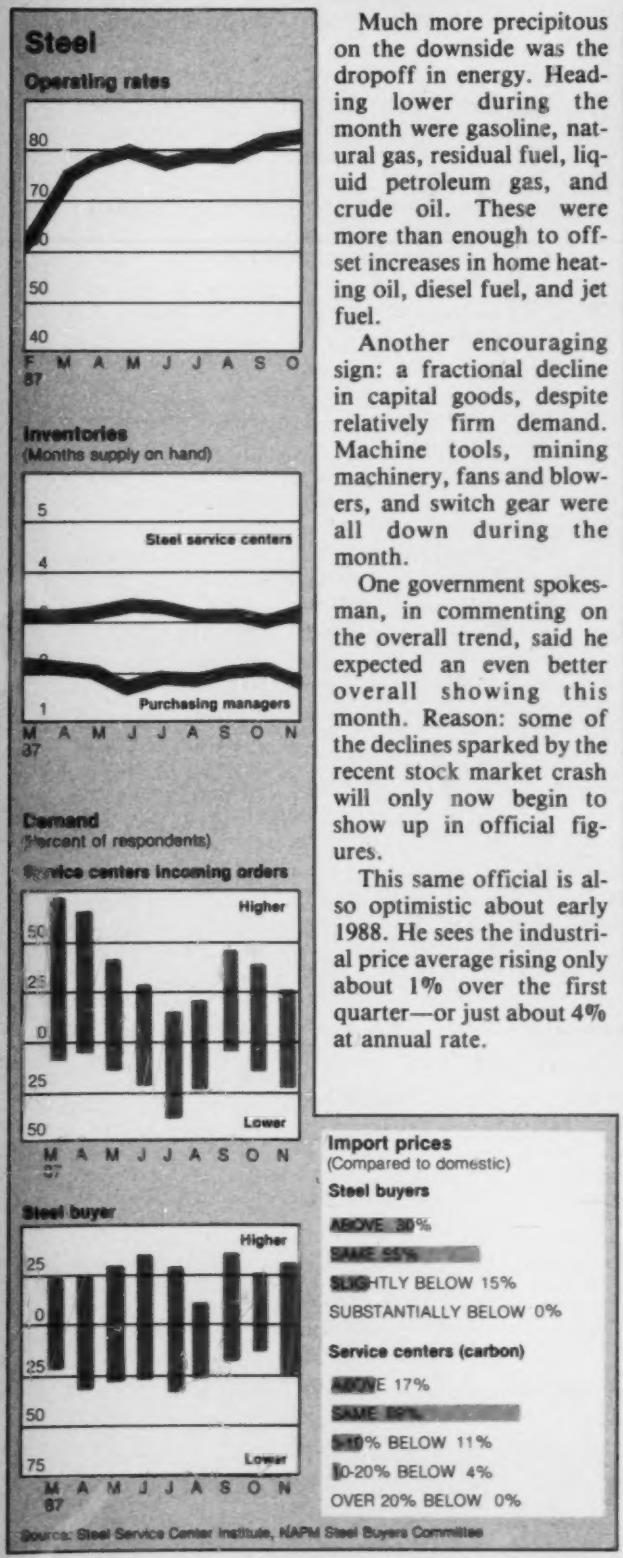
Industrial producer prices continue to show a slight tendency to advance. All in all, about 0.5% was added to overall averages over the latest reported month—as increases in such areas as chemicals, plastics, and metals more than offset new weakness in the energy sector.

Some of the biggest boosts were in the chemicals and plastics areas—as inorganics, organics, and plastic resins advanced 0.9%, 1.8%, and 4.2% respectively (see table). The increase in plastics was the largest one-month advance in more than eight years as virtually every commodity resin moved up the price ladder.

Metals also posted some fairly big increases—with steel mill product price averages jumping 2.7% over the month, leading the way. Other metals contributing to the latest overall rise were aluminum, copper, cadmium, and most metal scrap.

Other sectors reporting modest price increases were paper (containers, paperboard, and office supplies) and construction materials (flat glass, wire products, wiring devices, fabricated metal products, plastic construction products, and asphalt roofing). But bucking the trends were softwood lumber and plywood, both of which turned a bit easier.





Much more precipitous on the downside was the dropoff in energy. Heading lower during the month were gasoline, natural gas, residual fuel, liquid petroleum gas, and crude oil. These were more than enough to offset increases in home heating oil, diesel fuel, and jet fuel.

Another encouraging sign: a fractional decline in capital goods, despite relatively firm demand. Machine tools, mining machinery, fans and blowers, and switch gear were all down during the month.

One government spokesman, in commenting on the overall trend, said he expected an even better overall showing this month. Reason: some of the declines sparked by the recent stock market crash will only now begin to show up in official figures.

This same official is also optimistic about early 1988. He sees the industrial price average rising only about 1% over the first quarter—or just about 4% at annual rate.

STEEL SCENE

Sellers' market continues

The sellers' market in steel mill products still has a ways to go. Some impressive evidence on this score:

- Rising prices, with another broad-gauged boost scheduled for the beginning of the year.
- Longer lead times and expectations of continued supply snugness through winter and into early spring.
- Anticipated demand increases, both by buyers and steel service centers.

On the tightness score, the latest NAPM steel buyer survey finds availability now a concern in nine of the 10 steel categories monitored each month. Biggest worries over the next six months are centered in plate, hot-rolled sheet, cold-rolled sheet, and coated sheet.

Meantime, on the demand front some 32% of queried PMs expect to increase their receipts of the metal over the next three months—considerably over the 24% who see some decline. More important, this marks the third straight month that those indicating increases have been outnumbering their more cautious brethren.

Zero in on service centers and the picture is pretty much the same, with 27% of those responding to the latest Steel Center Institute (SSCI) survey seeing increases—significantly above the 21% who feel some declines may be in order.

Viewed from a slightly different perspective, Andrew Sharkey, SSCI president, now expects his members to ship 23 million tons this year; a 6% gain over 1986.

Commenting on this larger-than-overall-steel-consumption gain, Sharkey cites two basic factors: 1) Buyer responsiveness to the long leads and delivery problems of recent quarters; and, 2) service center marketing of total cost reduction programs.

On a more sobering note, this service center spokesman doesn't think that 1988 will be quite as robust—both for the steel industry and his own group. He predicts a relatively flat 86-90 million-ton steel consumption year, with only a few sectors (electric machinery, non-electric machinery, aerospace, and energy) likely to see improvement. The big auto market, on the other hand, should be down.

Sharkey feels that the current supply tightness could begin to ease, perhaps as early as the second quarter of 1988. Factors behind his optimism on this score: 1) elimination of mill production bottlenecks; 2) the addition of some new mill capacity and, 3) rather steady inventories after the buildup of the past year.

But, the levelling off in demand won't come fast enough to prevent new price boosts. Thus nearly one out of every three service centers expects bigger than 5% price hikes over the next six months.

Import price bargains continue to dry up. Only

15% of queried steel buyers, for example, now say foreign mills are offering price breaks—and even then the advantages are defined as being only "slight".

This is verified by service centers. Again, only 15% note lower prices in the carbon steel area—a figure offset by 17% reporting higher overseas asking prices. Bargains are also hard to find in stainless with only 28% reporting cheaper foreign tags—a far cry from the 100% figure recorded just one year earlier.

But not everyone is pessimistic on prices. Another service center spokesman, John H. Sennett, SSCI chairman, feels that the worst of the runup may be over. He adds that January hikes may well be the last for some time. In fact, he's not all that sure that each and every one of the anticipated increases at that time will hold up.

PROCUREMENT STATUS

Buyers' market fading a bit

A combination of seasonal demand pickup, temporary supply dislocations, and somewhat more robust export sales in some sectors is making for slightly snugger markets.

That's not to say things are really tight—for in most cases there's still ample capacity around. And there's more production potential coming on stream in 1988.

What the new trend does mean, however, is that the long '82-early '87 buyers' market has all but disappeared—and that lead times are out a bit *vis a vis* six and twelve months ago.

The latter is confirmed by another month of above neutral (above 50) readings for PW's exclusive lead time index (see chart). Also pointing toward some tightening is the fact NAPM surveys continue to show a growing number of respondents experiencing slower deliveries.

Finally, there has also been some stretchout in forward commitments for purchased materials. At latest report, for example, some 48% of NAPM survey respondents were contracting 60 days or more in advance—up from 42% just one month earlier.

On the other hand, the number of so-called problem areas remains limited. Most are basic raw materials such as steel, copper, paper, and a few of the more popular volume plastics and chemicals.

Also worth noting in this respect:

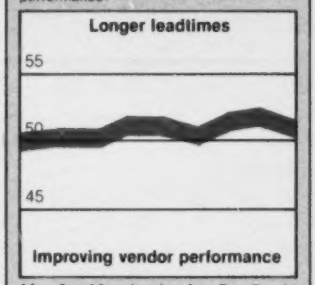
More important, corrective actions are underway. Thus more paper, copper, and plastic resin capacity additions have been announced. And existing potential in steel is being more fully utilized.

Another reassuring note for worried buyers: The recent stock market slide means that factory output in 1988 won't be quite as robust as originally envisioned—something which suggests relatively modest consumption gains for most raw materials.

A slowdown in inventory accumulation should also contribute to overall availability. As noted elsewhere in this issue, steel inventories will be steady or even down a bit. And there's some indication the previously razor-thin stocks in nonferrous metals and paper have been beefed up to more normal levels. Indeed, there are already signs of a general flattening out—with more buyers now adding to than paring inventories.

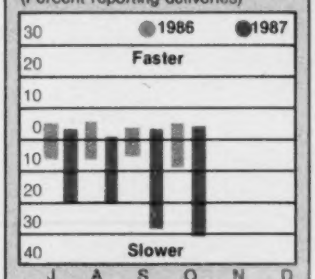
Monthly procurement status report

Leadtime index
A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.



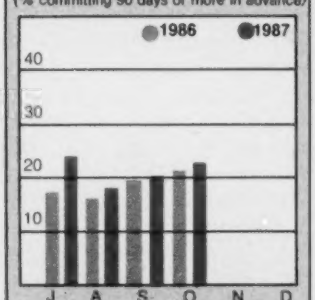
M A M J J A S O N
87

Delivery performance
(Percent reporting deliveries)



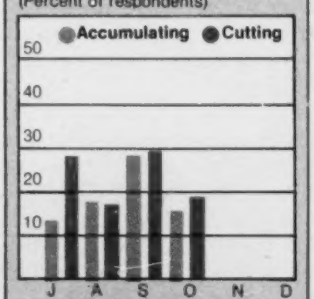
J A S O N D

Forward commitments
(% committing 90 days or more in advance)



J A S O N D

Inventory strategy
(Percent of respondents)



J A S O N D

Source: NAPM

Leadtimes and availability

Chicago: Corrugated has tightened a bit (to 3 weeks). Also in the packaging area, shrink film bags are out (to 6-8), but Mylar has come in (to 6-8). It also takes longer to get electrical items like wire, conduit, connectors, and switches (2-4) and bichromate chemicals (½-1). But surfactants are in (to ½).

Cleveland: Steel canisters have come in a week (to 1). Ditto, some plastic compounds (to 1-3). Remaining basically unchanged are cold-finish aluminum (8), paints (2-3), skids (1-3), corrugated containers (2-3), alloying materials (on demand), hard and softwood lumber (1-3), and steel drums (on demand).

Houston: There's concern in the copper area—about availability as well as price. Also some modest stretchout in cast steel valves (150-600 psi)—from 0-3 months to 0-4 months. Structurals have also moved out—from 2-3 months to 2-4 months. And galvanized, while steady now, takes 5 weeks longer than it did this past summer.

Los Angeles: Good news here, with modest lead time shrinkages in 3 areas (to these lower weekly leads): Grey iron castings (5-7), brass

castings (8-10), and custom storage tanks (8-10). Fasteners hold unchanged (7-9 domestic and 18-20 foreign). Ditto, electromechanical devices (6-8) and custom seals and gaskets (5-6).

Philadelphia: A few stretchouts to these new weekly waits: Glass containers (8-10), metal closures (4-6), polyethylene and polypropylene films (6), and chemicals for foam in place packaging (2). A more mixed picture for aluminum foil as imports rise to 12-14 weeks but domestic comes in to 6-8.

Pittsburgh: Zinc has come in a week (to 4)—reflecting an improving supply situation. Other typical weekly leads: Plastic bags (3-4), corrugated and folding boxes (3-4), waterproof papers (8), steel strapping (2-3), seals (1-3), plastic resins (5-6), and most alloying metals except copper and zinc (2-3).

Leadtimes (in weeks)

	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4	4	4
C-R Sheet (Chgo)	11	11	8
Plate (Phil)	10	10	3½
Plate (Chgo)	13½	13½	9
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	5½	5½	5½
H-R Bars (Chgo)	11	11	11
Cold-Drawn Bars (Phil)	5½	5½	5½
Galvanized (LA)	13	13	13
Galvanized (Chgo)	12	12	12
Structurals (Chgo)	5	5	4½
Structurals (Hous)	13	11	11
Tubing (Phil)	8½	8½	5½
Grey Iron Castings (LA)	6	7	7
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	17	17	17
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	14	14	16
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	4½	4½	4½
Motors (Phil)	12	12	9
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	9	9	9
Relays (Chgo)	15	15	15
Resistors (Chgo)	9	9	9
Resistors, Wirebound (Phil)	5	5	5
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	2½	2½	2½
Plywood (Chgo)	5	5	3
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	2	2	2
Softwood (Phil)	⅛	⅛	⅛
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Naphthalene (Chgo)	2	2	2
Paint (LA)	4	4	4
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	2	2	2
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	2½	2½	2½
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	4	2	2
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1

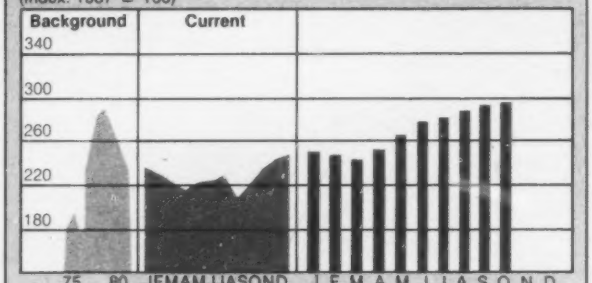
	Now	Month ago	Six months ago
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	2½	2½	2½
Cartons, Corrugated (Hous)	2	2	2
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	7	6	6
Shrink Film (Clev)	1	1	1
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	1	1	1
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	½	½	½
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NONFERROUS			
Aluminum Coil (Chgo)	22	22	13
Aluminum Plate (Chgo)	14	14	12
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	22	22	13
Brass Castings (LA)	9	11	9
Brass Rods (Chgo)	7½	7½	7½
Brass Sheet (Chgo)	11	11	11
Brass Tube (Chgo)	8½	8½	13
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	7	7
Copper Tube (Phil)	5½	5½	5½
Lead (Pgh)	3	3	2
Magnesium (Pgh)	2	2	2
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	2	2	2
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	4	5	3
MISCELLANEOUS			
Bearings, Domestic (Phil)	2	2	2
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	8	8	8
Fasteners, Std. (Phil)	3	3	3
Heat Exchangers, Carbon-alloy Steel (Hous)	22	22	21
Heat Exchangers, Hi-pressure (Hous)	25	25	24
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	1½	1½	1½
Pumps (Hous)	21	21	21
Pumps (LA)	11½	11½	11
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	9	4	4
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

Latest month 295.2
Month before 292.4
Year ago 235.5

(Index: 1967 = 100)



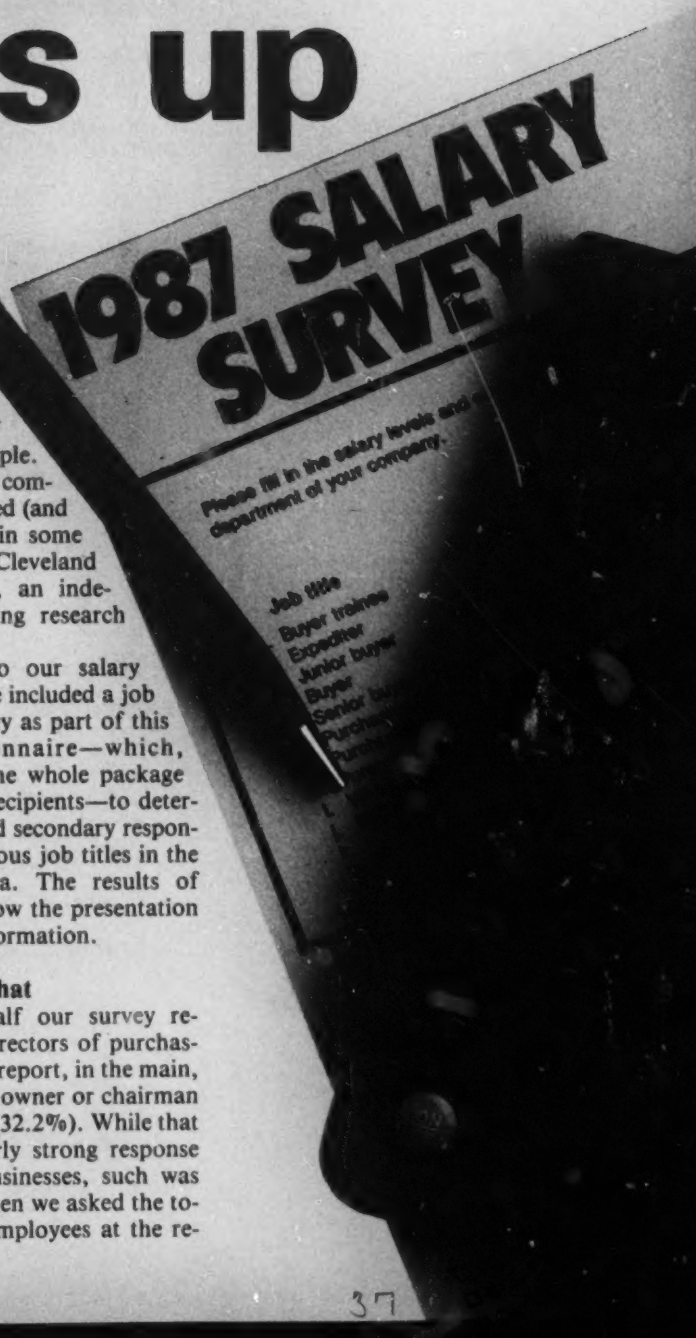
Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt	23.90	23.90	23.90
Steel, bars, dlvd. Phila., cwt., merchant quality	16.50	16.50	23.95
Steel, bars, Pitts., cwt.	16.50	16.50	23.95
Steel, bars, C.R., Pitts., cwt.	19.45	19.45	31.00
Steel, plates, Pitts., cwt.	19.75	19.75	18.25
Steel, plates, H.R., Pitts., cwt.	19.75	19.75	18.25
Steel, sheets, C.R., Detroit, cwt.	28.15	26.90	25.90
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.810	.835	.525
Antimony, N.Y., dealer, lb.	1.09	1.12	1.18
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.65
Brass, red, 85%, [sheet], lb.	1.64	1.50	1.27
Brass, yellow, [sheet], lb.	1.59	1.45	1.22
Cadmium, N.Y., dealer, lb.	3.05	2.25	0.98
Copper, electrolytic, wire bars, refd., lb.	1.00	.86	.63
Copper sheet, over 24 in., lb.	1.73	1.59	1.36
Lead, common, N.Y., lb.	.420	.420	.268
Magnesium, pig ingot, [99.8%], lb.	1.53	1.53	1.53
Mercury, 20 fl. lots, N.Y., fl.	355.00	355.00	192.00
Molybdenum, oxide, dealer, lb.	2.79	2.92	3.03
Nickel, cathode, dealer, lb.	2.71	2.48	1.78
Platinum, dealer, oz.	495.00	567.00	537.00
Silver, N.Y., oz.	6.63	7.56	5.73
Tin, N.Y., dealer, lb.	3.23	3.15	2.86
Zinc, Prime West, East St. Louis, lb.	.42	.42	.465
Zinc, die casting alloy, No. 3, lb.	.475	.475	.525
PAPER			
Uncoated book #3 offset, ton	890.00	860.00	850.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	17.17	17.34	16.24
Grocery sacks, ton	410.00	410.00	390.00
Solid bleached paperboard, ton	650.00	620.00	550.00
Kraft linerboard, 42 lb., unbleached, ton	380.00	380.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.271	.246	.214
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.24	1.24	1.05
Cotton middling, 1", N.Y., lb.	.609	.654	.433
Printcloth, 48", 80x80, N.Y., spot, yd.	0.95	0.95	1.05
Army duck, 37", 13 oz., yd.	1.51	1.51	1.40
Blended printcloth, 64", 78x54, yd.	.93	.95	.80
20s combed yarns	1.98	2.03	1.74
Wool 64s, Staple, lb.	3.00	2.90	1.90
CHEMICALS			
Acrylonitrile, tanks, lb.	.395	.395	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	75.00	105.00	80.00
Benzene, petroleum, tanks, Houston, gal.	0.90	0.92	0.85
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	.58	.58	.58
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.78	.81	.91
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants.	.36	.32	.28
Naphthalene, crude, tanks, lb.	.22	.22	.22
Phthalic anhydride, tanks, lb.	.32	.32	.27
Polyethylene resin, low density liner film grade (market place), lb.	.385	.345	.280
Polypropylene, homopolymer grade (market price), lb.	.470	.440	.325
Polystyrene, general purpose grade (market price), lb.	.520	.520	.350
Polyvinyl chloride, pipe grade (market price), lb.	.375	.365	.275
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.40	.40	.22
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	127.50	127.50	157.50
Sulphuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	.80	.80	.77
Xylene tanks, gal.	.78	.75	.80
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	332.60	338.90	328.35
Lumber 2x2 pine, mbf, cl	330.65	334.45	316.60
Plywood, plyform, ¾", msf, cl	575.50	584.60	592.35
Plywood, ⅜", msf, cl	391.45	391.00	392.45
Cement, bulk, ton, tl	63.73	63.73	63.28
Sand, ton, cl	7.12	7.14	6.62
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.88	49.13	48.15
Crushed stone, 1½", ton, cl	8.31	8.32	7.83
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.90	0.90	0.82
Gypsum sheathing, ½"x1"x8", msf, tl	226.69	228.46	215.07
Brick, common, per thousand, tl	198.26	198.26	186.51
Asphalt paving, AC-20	140.30	139.34	127.36
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.52	7.50	7.36
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	14.75	15.25	10.50
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	19.75	19.00	14.75
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	.560	.588	.415
Gasoline, 94 oct., reg., Chi., tank car, gal.	.540	.538	.436
Heating oil, No. 2, Chi., bulk, gal.	.585	.555	.428
Heating oil, No. 2, N.Y., bulk, gal.	.568	.603	.420
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.50
Jet kerosene, gal.	.553	.555	.433
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	.260	.260	.240
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	114.00	114.00	79.00
Steel, No. 1 hvy., dlvd., Chi., ton	115.00	115.00	72.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	.890	.785	.625
Copper, No. 2, East, wholesale buy, dlvd., lb.	.800	.700	.545
Brass, red, East, wholesale buy, dlvd., lb.	.850	.745	.510
Brass, yellow, East, wholesale buy, dlvd., lb.	.365	.365	.330
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	.500	.510	.315
Alum., mixed clip., E., wholesale buy, dlvd., lb.	.565	.575	.330
Zinc, old, East, wholesale buy, dlvd., lb.	.200	.200	.200
Lead, clean solids, East, wholesale buy, dlvd., lb.	.275	.275	.168
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	35.00	35.00	28.00
Paper, old corrug. box, dlr., N.Y., ton	20.00	20.00	24.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	.12	.12	.09
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	.230	.230	.105

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]

The salary scene:

It all adds up



Ron Stevens, senior editor

Some surprises emerge from the data in this year's survey, but salaries remain on the upswing, turnover remains low.

Figgers don't lie, according to the crackerbarrel philosopher, but liars do figger—which goes to the heart of all surveys and makes them interesting, revealing, and slippery.

So it is with our 1987 salary survey, which the professional market research firm doing our tabulations told us reassuringly was a "valid sample." Nevertheless, it doesn't tell us what we expected to hear. What do you do when that happens? We elected to tell you what we learned and let expectations—ours, and maybe yours—go hang.

Briefly, our methodology was to mail to our list of top managers on an *nth*-name basis, reaching approximately 3,000 high-level purchasing executives. The logic behind this approach is simply to get an upper management view of salaries—who better to tell us what various department members are making?—while letting us know about the concomitant perks, plans for future raises, etc.

The returns were more than adequate to give what we referred to earlier—a valid sample. The raw data was compiled and tabulated (and cross-tabulated, in some instances) by Cleveland Field Resources, an independent marketing research firm.

In addition to our salary questionnaire, we included a job description survey as part of this year's questionnaire—which, frankly, made the whole package daunting to its recipients—to determine primary and secondary responsibilities for various job titles in the purchasing arena. The results of that inquiry follow the presentation of the salary information.

Who told us what

More than half our survey respondents are directors of purchasing (56.8%) and report, in the main, to the president, owner or chairman of the company (32.2%). While that suggests an overly strong response from smaller businesses, such was not the case. When we asked the total number of employees at the re-

Average age by job title

Job title	Education level required
BUYER TRAINEE	12-59.5%
EXPEDITER	12-75%
JUNIOR BUYER	12-60.3%
BUYER	16-43.4%
SENIOR BUYER	16-57.3%
PURCHASING AGENT	16-56.5%
PURCHASING MANAGER	16-79.1%
PURCHASING DIRECTOR	16-75.0%
VP PURCHASING	16-80%
MATERIALS MANAGER	16-87.1%
MATERIALS DIRECTOR	16-66.6%
VP MATERIALS	16-100%

Raises—1987 vs. 1986

Job title	% average salary change (1987 vs. 1986)
BUYER TRAINEE	4.75
EXPEDITER	4.462
JUNIOR BUYER	5.326
BUYER	5.084
SENIOR BUYER	5.124
PURCHASING AGENT	5.163
PURCHASING MANAGER	5.290
PURCHASING DIRECTOR	5.414
VP PURCHASING	6.043
MATERIALS MANAGER	5.623
MATERIALS DIRECTOR	5.750
VP MATERIALS	7.467

spondent's *plant or location*, we got these results: 1-99 employees, 27.6%; 100-249 employees, 19.2%; 250-499, 16.6%; 500-999, 18%, and 1,000-plus employees, 17.7%.

The number of *purchasing* employees at the plant or location surveyed averaged 9.53.

Average (approximate) gross sales of the companies represented was $19,781,000, with annual purchase dollar volume listed as: under $10 million (40.9%); $10-50 million, 29.7%; $50-150 million, 17.6%; $150-500 million, 6.9%, and more than $500 million, 4.9%.

What about the money?

Just exactly who earns what; who gets bonuses—and how big are they; how many years' experience do you need, how big will raises be next year, etc.? We hoped you'd ask.

Our data show low and high averages, not low and high extremes. Thus, for each category there will be people earning more, or less, than the average low and high shown in our survey.

Keeping in mind that we gleaned the lion's share of our information

How much schooling?

Job title	Average age of employees in this position
BUYER TRAINEE	27
EXPEDITER	29
JUNIOR BUYER	30
BUYER	34
SENIOR BUYER	35
PURCHASING AGENT	35
PURCHASING MANAGER	39
PURCHASING DIRECTOR	42
VP PURCHASING	46
MATERIAL MANAGER	44
MATERIALS DIRECTOR	46
VP MATERIALS	44

Big companies pay more—Salaries by gross sales

	LESS THAN 150 MILLION		MORE THAN 650 MILLION	
	$LOW	$HIGH	$LOW	$HIGH
BUYER TRAINEES	14,666	19,000	19,500	27,333
EXPEDITERS	16,143	19,833	18,500	33,500
JR. BUYERS	14,200	18,069	19,000	25,800
BUYERS	16,912	21,453	20,555	33,444
SR. BUYERS	18,175	24,360	22,941	34,500
PURCHASING AGENTS	21,460	27,088	28,353	43,529
PURCHASING MGRS	25,089	31,506	33,895	51,666
PURCHASING DIRECTORS	33,652	39,866	43,150	66,714
VP PURCHASING	41,421	49,039	56,762	76,952
MATERIALS MGRS.	40,866	48,184	66,333	74,500
MATERIALS DIRECTORS	44,363	61,052	70,250	89,500
VP MATERIALS	55,857	50,833	88,000	96,000

from directors of purchasing departments, this is what we found:

- **Buyer trainees** averaged a low of $15,692 and a high of $21,909; with an average of 1.7 years' experience.
- **Expediters** earned from a low average of $16,231 to a high of $21,250; they averaged 4.1 years' experience.
- **Junior buyers** made from $14,957 to a high average of $19,609, based on 4.01 years of experience.
- **Buyers** were paid between $17,549 at the low end and $23,264 as a high average. They had, on average, 6.3 years' experience.
- **Senior buyers** earned a low average of $20,685 and a high average of $27,616, with an average experience of 10.8 years.
- **Purchasing agents'** salaries ranged from a low of $23,173 to a high average of $31,297. They averaged 9.7 years' experience.
- **Purchasing managers**, with an average of 13 years' experience, earn from a low average of $28,143 to a high average of $37,074.
- **Purchasing directors**, who provided most of our responses, are earning from a low average of $35,676 to a high average of $47,971. They also average 16.8 years in purchasing.
- **Vice presidents of purchasing** average 19.7 years' experience and make from $45,070 to $56,348.
- **Materials managers** are paid at the low average end of the scale $44,755, and at the high end, $52,222, with an average of 13.8 years of experience.

Job description survey

P = Primary responsibility
S = Secondary responsibility
N = No involvement

	VP-Procurement	VP-Materials	Director-Procurement	Director-Materials
OVERSEE TOTAL PROCUREMENT PROGRAM	P 88.6 S 7.1 N 4.3	P 81.8 S 9.1 N 9.1	P 88.6 S 7.6 N 3.8	P 78.8 S 12.1 N 9.1
PREPARE DEPARTMENT BUDGET	P 63.3 S 18.3 N 18.3	P 75.0 S 10.0 N 15.0	P 78.7 S 11.0 N 10.2	P 73.5 S 12.1 N 8.8
OVERSEE MATERIALS MANAGEMENT	P 62.5 S 23.2 N 14.3	P 84.6 S 3.8 N 11.5	P 47.7 S 31.5 N 20.7	P 78.9 S 13.2 N 7.9
REVIEW POS FOR CONTRACT CONFORMANCE	P 48.3 S 31.0 N 20.7	P 52.9 S 23.5 N 23.5	P 51.8 S 36.6 N 11.6	P 36.4 S 51.5 N 12.1
ANALYZE MAKE/BUY DECISIONS	P 54.4 S 31.6 N 14.0	P 55.6 S 27.8 N 16.7	P 59.7 S 32.8 N 7.6	P 39.4 S 48.5 N 12.1
SELECT/IMPLEMENT AUTOMATED PURCHASING SYSTEMS	P 54.4 S 33.3 N 12.3	P 66.7 S 23.8 N 9.5	P 63.7 S 27.4 N 8.9	P 61.8 S 35.3 N 2.9
VISIT VENDORS	P 38.3 S 46.7 N 15.0	P 39.1 S 43.5 N 17.4	P 56.0 S 40.3 N 3.7	P 35.3 S 55.9 N 8.8
CONTRACT FOR COMMODITIES	P 50.9 S 25.5 N 23.6	P 55.6 S 11.1 N 33.3	P 57.8 S 35.3 N 6.9	P 31.3 S 50.0 N 18.8
OBTAIN BEST BUY, ON-TIME	P 48.0 S 30.0 N 22.0	P 41.2 S 35.3 N 23.5	P 48.6 S 40.2 N 11.2	P 25.0 S 46.9 N 28.1
DEVELOP SOURCES FOR HIGH-DOLLAR, COMPLEX BUYING	P 58.6 S 19.0 N 22.4	P 52.9 S 23.5 N 23.5	P 69.0 S 23.8 N 7.1	P 45.5 S 39.4 N 15.2
COORDINATE VENDOR NEGOTIATIONS	P 54.5 S 29.1 N 16.4	P 44.4 S 33.3 N 22.2	P 65.9 S 28.5 N 5.7	P 52.9 S 38.2 N 8.8
SUPERVISE COST REDUCTION PROGRAM	P 60.3 S 22.4 N 17.2	P 73.7 S 15.8 N 10.5	P 68.8 S 28.9 N 2.3	P 63.9 S 33.3 N 2.8
REVIEW BIDS AND QUOTES	P 50.0 S 31.5 N 18.5	P 60.0 S 20.0 N 20.0	P 48.8 S 42.1 N 9.1	P 45.2 S 38.7 N 16.1
DIRECT BUYER ACTIVITIES	P 50.9 S 28.3 N 20.8	P 42.9 S 7.1 N 50.0	P 68.0 S 27.0 N 4.9	P 51.6 S 38.7 N 9.7

■ **Materials directors** earn, at the low average, $47,719, and at the high, $64,200. They average, according to our survey, 17.8 years in purchasing.

■ **Vice presidents of materials** average 19.1 years' experience and earn from a $59,375 low average to a high average of $63,125.

Dialing the statistical microscope down a little finer, we looked at salaries in the largest and smallest companies reporting and found, as you might expect, that it pays more to work for a larger company than a smaller one—what we were surprised by was how great the disparities were. Looking at companies of less than $150 million in gross sales, and comparing them to companies with more than $650 million in gross sales, we found that buyer trainees made a low average of $14,666 with the smaller companies, and $19,500 with larger companies. With smaller companies, the high average for this same category was $19,000, and with large companies it was $27,333.

All of this information appears in a chart with this story, but let us cite one more example for the career-minded: vice presidents of materials in small firms had a low average salary of $35,857 and a high average of $50,833; the same job title with a large company had a low average of $88,000 and a high of $96,000.

How much did salaries increase from 1986? Our respondents said they went up in all categories, anywhere from 4.75% for buyer trainees, to 7.46% for a vice president of

Purchasing Manager	Materials Manager	Purchasing Agent	Senior Buyer	Buyer	Jr. Buyer	Expeditor	Buyer Trainee
P 56.5 S 33.0 N 10.4	P 80.8 S 11.5 N 7.7	P 20.0 S 25.3 N 54.7	P 2.7 S 29.7 N 67.6	P 4.4 S 16.8 N 78.8	P 0.0 S 0.0 N100.0	P 2.2 S 2.2 N 95.5	P 0.0 S 11.8 N 88.2
P 47.5 S 33.0 N 20.3	P 61.5 S 11.5 N 15.4	P 13.0 S 24.7 N 62.3	P 2.7 S 22.7 N 74.7	P 1.8 S 14.2 N 84.1	P 0.0 S 5.1 N 92.3	P 0.0 S 4.8 N 95.2	P 0.0 S 5.9 N 94.1
P 34.0 S 39.8 N 26.2	P 88.9 S 5.6 N 5.6	P 18.9 S 31.1 N 50.0	P 5.6 S 21.1 N 73.2	P 10.4 S 19.1 N 70.4	P 0.0 S 11.1 N 88.9	P 4.7 S 7.0 N 88.4	P 0.0 S 11.8 N 88.2
P 70.4 S 25.2 N 4.3	P 42.9 S 38.1 N 19.0	P 73.3 S 21.1 N 5.6	P 57.5 S 32.2 N 10.3	P 42.3 S 45.3 N 12.4	P 22.7 S 36.4 N 40.9	P 4.7 S 9.3 N 86.0	P 0.0 S 23.5 N 76.5
P 69.5 S 22.9 N 7.6	P 51.9 S 26.1 N 14.8	P 65.9 S 26.1 N 8.0	P 58.8 S 29.4 N 11.8	P 50.0 S 31.9 N 18.1	P 16.3 S 32.6 N 51.2	P 6.8 S 9.1 N 84.1	P 16.7 S 11.1 N 72.2
P 48.7 S 39.5 N 11.8	P 46.2 S 15.4 N 38.5	P 14.5 S 51.8 N 33.7	P 13.4 S 39.0 N 47.6	P 6.7 S 36.1 N 57.1	P 0.0 S 20.5 N 79.5	P 0.0 S 16.3 N 83.7	P 0.0 S 5.9 N 94.1
P 60.5 S 36.3 N 3.2	P 20.8 S 54.2 N 25.0	P 62.9 S 30.9 N 6.2	P 68.3 S 26.0 N 5.8	P 55.0 S 32.9 N 12.1	P 35.4 S 20.8 N 43.8	P 6.7 S 37.8 N 55.6	P 5.6 S 44.4 N 50.0
P 65.1 S 25.7 N 9.2	P 30.4 S 43.5 N 26.1	P 68.6 S 19.8 N 11.6	P 67.8 S 22.2 N 10.0	P 51.8 S 24.1 N 24.1	P 29.8 S 27.7 N 42.6	P 2.4 S 12.2 N 85.4	P 6.3 S 50.0 N 43.8
P 68.5 S 26.9 N 4.6	P 20.8 S 41.7 N 37.5	P 87.6 S 9.5 N 2.9	P 86.0 S 10.0 N 4.0	P 84.1 S 14.0 N 1.8	P 69.2 S 15.4 N 15.4	P 14.3 S 21.4 N 64.3	P 44.4 S 16.7 N 38.9
P 71.7 S 22.5 N 5.8	P 43.5 S 30.4 N 26.1	P 54.0 S 29.9 N 16.1	P 52.7 S 37.6 N 9.7	P 26.9 S 43.3 N 29.9	P 17.4 S 32.6 N 50.0	P 2.3 S 16.3 N 81.4	P 0.0 S 33.3 N 66.7
P 77.2 S 19.5 N 3.3	P 36.0 S 36.0 N 28.0	P 62.9 S 30.9 N 6.2	P 62.6 S 29.3 N 8.1	P 42.4 S 42.4 N 15.1	P 25.0 S 34.1 N 40.9	P 2.3 S 14.0 N 83.7	P 11.1 S 27.8 N 61.1
P 73.4 S 23.4 N 3.2	P 60.0 S 24.0 N 16.0	P 30.3 S 58.4 N 11.2	P 22.7 S 54.5 N 22.7	P 10.9 S 57.0 N 32.0	P 7.0 S 30.2 N 62.8	P 2.3 S 27.9 N 69.8	P 0.0 S 29.4 N 70.6
P 77.0 S 21.3 N 1.6	P 41.7 S 41.7 N 16.7	P 77.7 S 19.4 N 2.9	P 82.7 S 13.3 N 4.1	P 69.7 S 24.5 N 5.8	P 58.0 S 24.0 N 18.0	P 9.5 S 23.8 N 66.7	P 36.8 S 31.6 N 31.6
P 84.3 S 14.2 N 1.6	P 33.3 S 37.5 N 29.2	P 51.8 S 20.0 N 28.2	P 25.6 S 30.2 N 44.2	P 14.5 S 16.1 N 69.4	P 5.0 S 12.5 N 82.5	P 4.7 S 4.7 N 90.7	P 0.0 S 5.9 N 94.1

materials. In between, results were as follows: expediters, 4.46%; junior buyers, 5.32%; buyers, 5.08%; senior buyers, 5.12%; purchasing agents, 5.16%; purchasing managers, 5.29%; purchasing directors, 5.41%; vice presidents of purchasing, 6.04%; materials managers, 5.62%, and materials directors, 5.75%.

Looking ahead to 1988, and admittedly before the stock market went wonky, our respondents predicted that salaries would increase again. Predicting up to a 3% increase are 20.9% of the respondents; 63.1% are looking for 3.1-6% increases; 14.2% expect to see 6.1-9% improvements, and only a minuscule 1.8% think salaries would increase by more than 9%.

All that's compensation isn't in the paycheck, of course. We asked our respondents about incentives and perks their employers might give. A total of 38.6% said simply, "none." Of those who didn't get "none," however, 48.2% said bonuses were available; 13.5% listed stock options as an incentive, 8.7% said they got company cars, and 8.2% cited various incentive awards. As a subset, 18.6% of those with incentives said they would increase, 65.9% said they would remain the same, and 6.1% felt they would decrease.

How often are raises given? Annually seemed to be most companies' choice, at 87.5%; 28.1% said raises would be given as merited.

As far as education is concerned,

Job description survey

P = Primary responsibility
S = Secondary responsibility
N = No involvement

	VP-Procurement	VP-Materials	Director-Procurement	Director-Materials
TRAIN NEW BUYERS	P 32.0 S 32.0 N 36.0	P 50.0 S 14.3 N 35.7	P 53.9 S 33.9 N 12.2	P 40.0 S 43.3 N 16.7
DEVELOP/ANALYZE PRICE AND SUPPLY DATA	P 44.2 S 32.7 N 23.1	P 33.3 S 20.0 N 46.7	P 54.3 S 37.1 N 8.6	P 37.5 S 37.5 N 25.0
ANALYZE TRENDS (FORECASTS)	P 58.9 S 21.4 N 19.6	P 44.4 S 27.8 N 27.8	P 69.5 S 24.2 N 6.3	P 69.7 S 24.2 N 6.1
MANAGE BUYING FOR OTHER LOCATIONS	P 38.8 S 24.5 N 36.7	P 21.4 S 35.7 N 42.9	P 51.3 S 21.7 N 27.0	P 43.3 S 30.0 N 26.7
ASSIGN BUYING RESPONSIBILITY TO OTHERS	P 55.4 S 21.4 N 23.2	P 52.9 S 17.6 N 29.4	P 74.8 S 21.1 N 4.1	P 67.7 S 25.8 N 6.5
PARTICIPATE IN VALUE ANALYSIS PROJECTS	P 35.7 S 46.4 N 17.9	P 52.9 S 35.3 N 11.8	P 51.6 S 36.9 N 11.5	P 41.9 S 51.6 N 6.5
OPTIMIZE INVENTORY/INVESTMENT	P 53.7 S 37.0 N 9.3	P 70.0 S 15.0 N 15.0	P 59.2 S 28.3 N 12.5	P 68.6 S 28.6 N 2.9
MEASURE INVENTORY FOR MONTHLY BUDGET	P 42.6 S 29.8 N 27.7	P 65.0 S 10.0 N 25.0	P 42.1 S 28.0 N 29.9	P 55.9 S 29.4 N 14.7
SELECT INBOUND/OUTBOUND TRANSPORTATION	P 25.5 S 35.3 N 39.2	P 41.2 S 5.9 N 52.9	P 22.6 S 38.7 N 38.7	P 28.7 S 57.6 N 15.2
EVALUATE SUPPLIERS/DEVELOP NEW SOURCES	P 48.1 S 30.8 N 21.2	P 52.9 S 29.4 N 17.6	P 63.4 S 30.9 N 5.7	P 45.2 S 41.9 N 12.9
ISSUE PURCHASE ORDERS AND CHANGES	P 36.7 S 28.6 N 34.7	P 18.8 S 31.3 N 50.0	P 29.4 S 46.8 N 23.9	P 25.0 S 31.3 N 43.8
SELECT SOURCES OF RAW MATERIALS/SUPPLIES	P 50.0 S 28.0 N 22.0	P 43.8 S 31.3 N 25.0	P 56.3 S 34.5 N 9.2	P 41.9 S 35.5 N 22.6
EXPEDITE ORDERS/DELIVERIES	P 19.6 S 39.1 N 41.3	P 35.3 S 23.5 N 41.2	P 17.9 S 50.0 N 32.1	P 21.9 S 43.8 N 34.4
MAINTAIN PURCHASING RECORDS	P 22.4 S 46.9 N 30.6	P 30.8 S 23.1 N 46.2	P 34.3 S 37.0 N 28.7	P 19.4 S 35.5 N 45.2

buyer trainees, expediters and junior buyers need a minimum of a high school diploma, according to a majority of our respondents; from there on up the purchasing ladder, college is required by half or more of the companies.

What else does it take to get ahead in the world of purchasing? We asked what influenced purchasing salaries—and how much impact those aspects had, with the following results: performance was cited as having the most impact by 69.4%. Education received responses ranging from "some impact" to "almost no impact" by 77.1% of the audience. On a scale of 1-5 (with 1 being *most* impact) 41.1% gave experience a 2 and 26.9% gave it a 3. Another criterion mentioned was profit, which received a 35.1% endorsement.

Once again, as in years past, purchasing people have expressed satisfaction with their jobs—average turnover rate in purchasing departments across the land registered in at 0-5% for 81.9%.

After all is said and done, these numbers can be grasped pretty simply by taking a look at one category, the purchasing manager. On average, he (not she) earns $41,484 (plus a bonus reflecting his year's performance), has just over 13 years' experience and a four-year college degree. He's almost 40 years old, is satisfied with his job, and has expectations (predicted before Black Monday) of a 5% raise in 1988. **PW**

Purchasing Manager	Materials Manager	Purchasing Agent	Senior Buyer	Buyer	Jr. Buyer	Expeditor	Buyer Trainee
P 74.4 S 21.5 N 4.1	P 29.2 S 37.5 N 33.3	P 48.4 S 34.1 N 17.6	P 32.3 S 47.3 N 20.4	P 14.0 S 38.8 N 47.3	P 6.8 S 18.2 N 75.0	P 0.0 S 11.6 N 88.4	P 0.0 S 11.8 N 88.2
P 65.0 S 30.8 N 4.3	P 30.4 S 39.1 N 30.4	P 64.2 S 30.5 N 5.3	P 62.0 S 33.7 N 4.3	P 51.7 S 40.8 N 7.5	P 32.6 S 37.0 N 30.4	P 6.8 S 25.0 N 68.2	P 5.6 S 38.9 N 55.6
P 63.0 S 29.4 N 7.6	P 52.2 S 26.1 N 21.7	P 39.1 S 43.7 N 17.2	P 36.4 S 51.1 N 12.5	P 26.6 S 42.2 N 31.3	P 11.6 S 44.2 N 44.2	P 4.8 S 19.0 N 76.2	P 0.0 S 52.9 N 47.1
P 39.8 S 24.8 N 35.4	P 13.0 S 26.1 N 60.9	P 17.1 S 25.6 N 57.3	P 15.2 S 26.6 N 58.2	P 9.8 S 20.5 N 69.7	P 2.4 S 16.7 N 81.0	P 2.3 S 4.7 N 93.0	P 5.9 S 23.5 N 70.6
P 70.3 S 22.9 N 6.8	P 32.0 S 28.0 N 40.0	P 31.3 S 20.5 N 48.2	P 14.8 S 29.6 N 55.6	P 2.5 S 15.8 N 81.7	P 0.0 S 12.5 N 87.5	P 0.0 S 2.4 N 97.6	P 11.1 S 5.6 N 83.3
P 58.8 S 34.2 N 7.0	P 56.0 S 24.0 N 20.0	P 49.5 S 40.0 N 10.5	P 40.2 S 46.7 N 13.0	P 35.3 S 46.8 N 18.0	P 16.7 S 41.7 N 41.7	P 15.9 S 18.2 N 65.9	P 11.1 S 22.2 N 66.7
P 55.3 S 29.8 N 14.9	P 81.8 S 6.1 N 12.1	P 42.4 S 42.4 N 15.3	P 26.5 S 43.4 N 30.1	P 27.7 S 42.3 N 30.0	P 4.9 S 36.6 N 58.5	P 4.7 S 27.9 N 67.4	P 0.0 S 43.8 N 56.3
P 35.8 S 31.1 N 33.0	P 72.2 S 16.7 N 11.1	P 27.7 S 30.1 N 42.2	P 12.2 S 29.7 N 58.1	P 18.1 S 29.9 N 52.0	P 10.0 S 20.0 N 70.0	P 11.6 S 14.0 N 74.4	P 5.9 S 23.5 N 70.6
P 23.8 S 41.0 N 35.2	P 30.8 S 46.2 N 23.1	P 34.9 S 27.9 N 37.2	P 19.8 S 33.3 N 46.9	P 26.0 S 34.4 N 39.7	P 18.2 S 27.3 N 54.5	P 7.5 S 35.0 N 57.5	P 6.3 S 31.3 N 62.5
P 75.6 S 23.5 N 0.8	P 33.3 S 41.7 N 25.0	P 76.8 S 18.2 N 5.1	P 78.4 S 18.6 N 2.9	P 66.0 S 27.5 N 6.5	P 54.0 S 26.0 N 20.0	P 7.1 S 23.8 N 69.0	P 22.2 S 27.8 N 50.0
P 57.7 S 34.2 N 8.1	P 23.1 S 26.9 N 50.0	P 80.2 S 12.9 N 6.9	P 88.2 S 7.8 N 3.9	P 89.0 S 9.8 N 1.2	P 81.4 S 13.6 N 5.1	P 36.2 S 34.0 N 29.8	P 54.2 S 37.5 N 8.3
P 70.7 S 25.9 N 3.4	P 27.3 S 31.8 N 40.9	P 67.4 S 29.5 N 3.2	P 77.6 S 15.3 N 7.1	P 69.1 S 23.0 N 7.9	P 54.7 S 20.8 N 24.5	P 18.8 S 27.1 N 54.2	P 11.1 S 44.4 N 44.4
P 31.1 S 59.2 N 9.7	P 24.0 S 32.0 N 44.0	P 55.4 S 38.0 N 6.5	P 58.0 S 39.0 N 3.0	P 77.0 S 20.6 N 2.4	P 62.3 S 31.1 N 6.6	P 92.8 S 5.8 N 1.4	P 52.0 S 44.0 N 4.0
P 45.3 S 43.4 N 11.3	P 17.4 S 30.4 N 52.2	P 56.5 S 33.7 N 9.8	P 53.6 S 42.3 N 4.1	P 66.9 S 28.6 N 4.5	P 60.7 S 34.4 N 4.9	P 76.7 S 16.7 N 6.7	P 75.9 S 17.2 N 6.9

Freight rates edging up modestly

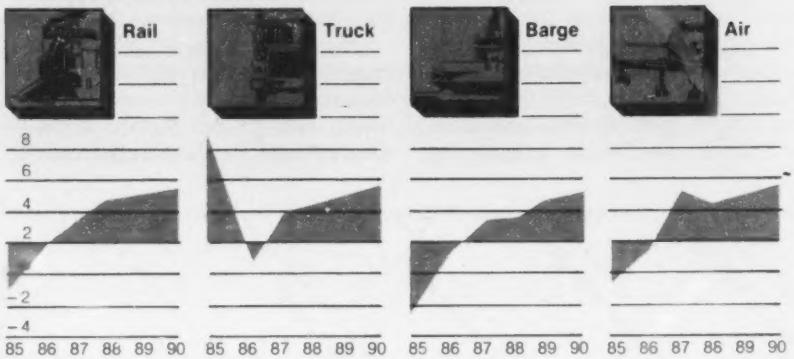
Freight rates are beginning to edge up.

To be sure, increases have generally been quite modest—averaging out in the three to five percent range for key transportation modes. Nevertheless, the boosts do represent a change from 1986 when the average freight bill moved up, almost imperceptibly, by only about one-and-one-half percent.

The estimates for future increases, part of Wharton Econometric's quarterly transportation review, prepared especially for *PurchasingWorld* readers, are in part due to increasing demand and in part to somewhat higher carrier operating costs. On the latter score, Wharton analysts note moderately higher outlays for both labor and energy.

Freight cost outlook by mode

(Percent increase over previous year)



Source: Wharton Econometric Forecasts

Increases hover at five percent

The big econometric forecasting firm paints a rosy picture (at least as far as shippers are concerned) for the next few years. They see only modest acceleration in overall freight rates over the 1989-1990 period with gains over those three years put at 4.2, 4.9 and 5.4%, respectively.

The firm's forecast is consistent with that made three months ago. Then, the 1988 and the 1989 projections came to 3.7 and 5.0%, respectively.

Why the optimism on the rate front—optimism which indicates that increases won't be any greater than those anticipated for overall industrial prices? Two factors are suggested: one, lingering overcapacity; and two, healthy intra- and intermodal competition.

Such generalizations tell only part of the story. Individual modal trends are expected to shape up along the following lines:

■ **Trucking:** Year-to-date tonnage, according to the American Trucking Association, us up close to 7%. This growth would seem to indicate continuing inroads into the markets of other transportation modes, since industrial production has been rising at only a 4-5% rate over the same period.

Price increases for the trucking industry overall should average out at about 4.1% this year as fuel costs increase. Signs of the times: one, the likelihood of a new 3.25% general rate increase sticking this fall, and, two, a rise in the minimum shipping charge (from $35. to $36.25).

As for the longer pull, competitive pressures should hold next year's increase to 4.3%. But in 1989 and 1990, mounting costs will push through to freight rates which are projected to advance 5.0 and 5.5%, respectively.

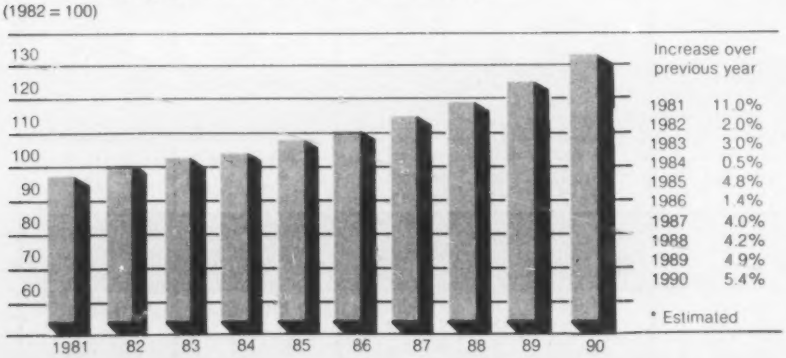
■ **Railroads:** Freight volume has picked up to the point were year-to-date figures are running about 4% above comparable year-ago levels. Shipments of grain, coke and metallic products are up substantially, but auto shipments are off.

Also, piggyback traffic is now advancing slower than overall freight—indicating that the big shift to this approach is over. In any case, TOFC/COFC traffic is up only 3.2% so far this year.

Shippers using piggyback and truck combinations should benefit from a recent ICC decision allowing Union Pacific to acquire Overnite Transportation; the first rail acquisition of a less-than-truckload

PurchasingWorld freight rate index

(1982 = 100)



	Increase over previous year
1981	11.0%
1982	2.0%
1983	3.0%
1984	0.5%
1985	4.8%
1986	1.4%
1987	4.0%
1988	4.2%
1989	4.9%
1990	5.4%

* Estimated

1988 price trends—costs up, but only slightly

Top buying executives are not overly concerned about the magnitude of near-term price increases.

Sure, a new *PurchasingWorld* nationwide survey of purchasing managers suggests that there will be some increase in the overall rate of advance for the goods and services they buy. But, by and large, the acceleration is expected to be quite modest. Not one single respondent anticipates any return to the double-digit rates of a few years back.

Why the hold-the-line optimism? Actually several factors are indicated. These include ample capacity in most sectors, relatively restrained wage and other cost increases, a continuing fair amount of foreign competition, purchasings' resistance to big boosts, and just so-so demand pressures.

On the latter score, most PMs see only moderate advances in their overall purchases—with any earlier projections calling for really big gains erased by the recent stock market tumble.

Taking off on this latter point, one East Coast buyer feels that the stock market price impact will be felt mostly in the sensitive raw material sector. As he puts it, "even fractionally smaller growth could knock one or two percentage points off what we would otherwise be paying for metals, chemicals, and a host of other basic inputs."

A more detailed rundown on the new survey's basic findings follows:

- **Overall 1988 price trend:** Procurement costs are expected to rise about 5% over the new year—only about one-half a percentage point over this year's estimated 4.5% increase. Moderation is also indicated by the fact that 42% of the respondents anticipate price acceleration—with the remaining split as follows: 32% predict the same rate of increase and 26% see some deceleration.
- **Sector by sector:** Raw materials are expected to be up about 5.4% next year—only fractionally above the 5.2% estimate made for 1987 advances.
- **Product by product:** Items singled out as possible candidates for higher-than-average increases include chemicals, plastic resins, semiconductors, steel, cast iron products, nonferrous metals, corrugated containers, electric motors, and petroleum products. Computers are about the only area where some price erosion is expected.

But buyers are fighting back, attempting to parry any further upward thrust. One popular approach: pressing for more price guarantees. In some cases, they say they've been able to lock in quotes for as long as a year.

Several have also been putting more emphasis on reducing the number of suppliers in order to get more buying clout. The big pluses, they say, are lower prices, better quality, and generally improved servicing.

Others are taking the exact opposite tack—searching around for more low-cost producers. These people feel there is no substitute for competition, with the more suppliers bidding for your business, the more likelihood of getting a better deal.

There's much more agreement on other purchasing strategies—including emphasis on long-term contracts and blanket orders, more consignment shipments, the demanding of detailed cost justification for proposed price increases, and working more closely with vendors to reduce production costs. The latter suggests that Value Analysis, though around for decades, is still a viable alternative.

Nor are imports being forgotten. Several PMs point out that while the dollar has deteriorated *vis a vis* the currencies of Western Europe and Japan (thereby forcing increases in import prices), there are still plenty of other countries in Asia and Latin America where our currency has pretty much held its own.

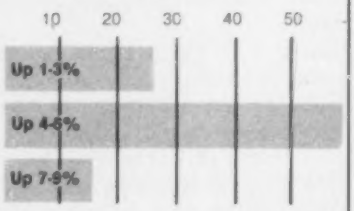
The hefty price boosts in some basic metals is also prompting a few PMs to look more closely at the futures market. One copper buyer, for example, says this "hedging" has managed to save his company hundreds of thousands of dollars this year.

The near-term situation is perhaps best summed up by a midwestern PM. He feels that while he can't prevent increases, he can at least try to keep them under the all-industry average. His target for 1988: About a 3.5-4% cost increase for his overall purchase mix—about one percentage point under advances suggested by current econometric projections of the items he buys. **PW**

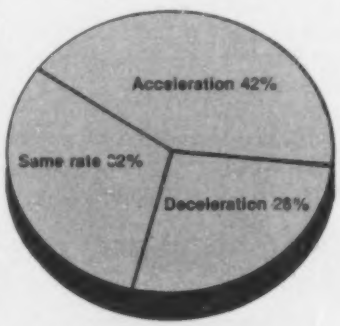
How buyers see 1988 price trends

Expected overall increase

(Percent of respondents)

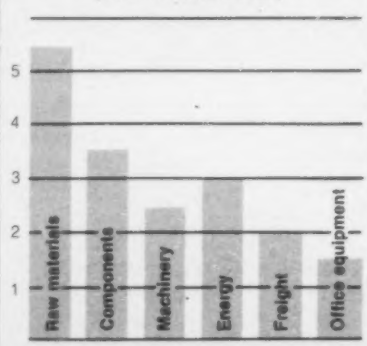


A comparison with 1987



Sector-by-sector trends

(Percent increase 88/87)



Source: PurchasingWorld

Wharton Transportation report

...continued from pg 44

(LTL) carrier. And it's unlikely to be the last. The move has been hailed as a realistic appreciation that railroads have to offer the flexibility and door-to-door service that truck freight can provide. Only this will allow them to compete in the handling of non-bulk commodities in this age of just-in-time inventory management.

Rate increases here look to remain tolerably small—with this year's average advance put at only 3.8%. for 1988 through 1990 increases of 4.3, 5.0 and 5.2%, respectively, are expected.

■ **Air freight:** Traffic has been up dramatically this year. According to the Air Transport Association, domestic cargo is close to 9% ahead of last year (freight is up nearly 10% and mail up 6%).

Rate increases here are also likely to be comparatively high this year with much of the advance attributed to healthier demand levels. Next year rate gains will abate a bit, with the increase put at 4.5% Increases of 5.0 and 5.3%, respectively, are expected for 1989 and 1990.

■ **Water:** The industry appears to be leveling off after a 10-year decline that claimed a large number of operators as victims. Survivors are much stronger, and both grain and chemical traffic has begun to pick up.

Nevertheless, the industry's rates will continue to be held down by the huge, albeit shrinking, surplus of barges that could still take years to work off through scrappage. Therefore, water freight rates will continue to show the smallest gains of the transportation services.

This year, for example, rates are expected to increase 3.8% and next year's advances will be almost the same. Even in 1989 and 1990, when the general price and wage level will be growing at a relatively fast clip, rate growth will be limited to 4.4 and 4.8%, respectively. **PW**

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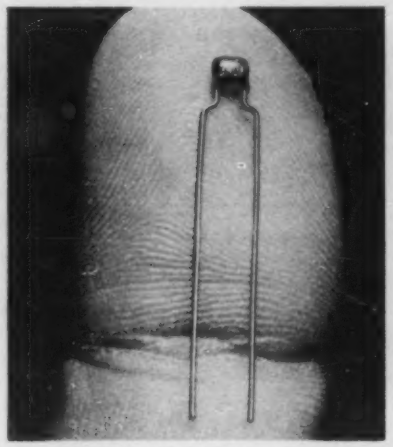

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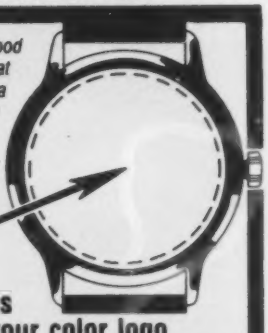

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